

BUSINESS STUDIES



Important Questions

Multiple Choice questions-

Question 1. Which of the following is not applicable to responsibility accounting

- (a) Accounting centre
- (b) Cost centre
- (c) Profit centre
- (d) Investment centre

Question 2. Management control is done by the _____

- (a) Managers at Top Level
- (b) Managers at Middle Level
- (c) Managers at Lower Level
- (d) All of the above

Question 3. What will be the corrective action for defective machinery?

- (a) Sell at the book value
- (b) Sell at a loss
- (c) Sell at a profit
- (d) Repair or Replace the machine

Question 4. Which of the following is not a technique of controlling?

- (a) Break-even analysis
- (b) Budget
- (c) Managerial Audit
- (d) Cash Flow Statement

Question 5. Technological up-gradation is the best corrective action in case of _____

- (a) Defective machinery
- (b) Defective material
- (c) Obsolete Machinery
- (d) None of the above

Question 6. What will be the corrective action for defective material?

- (a) Change in Quantity
- (b) Change in Price
- (c) Change in Quality Specifications for the material used
- (d) None of the above

Question 7. An efficient control system helps to

- (a) Judges accuracy of standards
- (b) Accomplishes organisational objectives

- (c) Boosts employee morale
- (d) All of the above

Question 8. Controlling is _____ aspect of management.

- (a) Physical
- (b) Practical
- (c) Mental
- (d) Theoretical

Question 9. What is the last step in the controlling process?

- (a) Setting Performance Standards
- (b) Taking corrective action
- (c) Comparing actual performance with standards
- (d) Measurement of actual performance

Question 10. Why actual performance is compared with standards?

- (a) To take corrective action
- (b) To improve the quality of material
- (c) To change the machinery
- (d) None of the above

Question 11. Controlling is _____

- (a) Economical
- (b) Costly
- (c) Free
- (d) Very Cheap

Question 12. Which of the following is a limitation of controlling?

- (a) Controlling improves employee motivation
- (b) Controlling is goal-oriented
- (c) Controlling is expensive
- (d) Controlling ensures order and discipline

Question 13. The main focus of controlling is on _____

- (a) Competition
- (b) External Forces
- (c) Results
- (d) Business Environment

Question 14. Management audit is a technique to keep a check on the performance of

- (a) Company
- (b) Management of the company
- (c) Shareholders

(d) Customers

Question 15. When actual performance is better than the standard performance it is called

- _____
- (a) Negative Deviation
 - (b) Poor Deviation
 - (c) Positive Deviation
 - (d) None of the above

Very Short-

1. If you want to control everything you may end up controlling.
2. Define Management Audit.
3. Why is controlling considered to be a backward looking?
4. Name two types of profitability ratios?
5. What do you call the sales volume at which there is no profit, No loss?
6. Give 2 examples of Corrective Action.
7. Give two examples of responsibility centers.
8. Marketing department comes under which type of responsibility center.
9. Give the formula of Return on Investment.
10. What do you understand by key KRAs result areas?

Short Question-

Question 1. Mention the important features of the control function of management.

Question 2. Explain the term Management by Exception.

Question 3. Explain in brief the term Responsibility Accounting.

Question 4. Explain in brief the term Zero base budgeting.

Question 5. Explain the Modern technique of control by the management information system (MIS) a computer-based technique.

Question 6. Distinguish between Planning and Control.

Question 7. What are the advantages of Management audit?

Long Questions-

Question 1. Explain the essential features of a sound control system.

Question 2. Explain the relationship of the controlling the function of management with other functions of management.

Case Study based Question-

1. Mr. Nath, a recently appointed production manager of Suntech Ltd., has decided to produce jute bags instead of plastic bags as these are banned by the government. He set a target of producing 1000 jute bags a day. It was reported that the employees were not able to achieve the target. After analysis, he found that employees were demotivated and not putting in their best for achieving the target. Mr. Nath's behaviour is good towards the employees. His attitude is always positive. So, he announced various incentive schemes for the employees like:
 - a. Installing awards or certificates for best performance
 - b. Rewarding an employee for giving valuable suggestions
 - c. Congratulating the employees for good performance
 - Identify the functions of management highlighted in the above paragraph.
 - State the incentive under which the employee are motivated.
 - State any two values which the production manager wants to communicate to society by his work and behaviour. (CBSE, Sample Paper 2015)
2. A company was manufacturing LED bulbs which were in great demand. It was found that the target of producing 300 bulbs a day was not met by the employees. On analysis, it was found that the workers were not at fault. Due to electricity failure and shortage of workers, the company was not able to achieve the set targets and alternative arrangements were needed.

To meet the increased demand, the company assessed that approximately 88 additional workers were required out of which 8 would work as heads of different departments and 10 would work as subordinates under each head. The required qualifications and job specifications were also enlisted. It was also decided that necessary relaxations should be given to encourage women, people from backward and rural areas and people with special abilities to assume responsible positions in the organisations. All efforts were made to match the ability of the applicants with the nature of work.

 - a. Identify the functions of management discussed above.
 - b. State the two steps in the process of each function discussed in the above paragraph.
 - c. List any two values which the company wants to communicate to the society. (CBSE, Delhi 2015)

Assertion Reason Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Assertion and reason both are correct statements and reason is correct explanation for

assertion.

- b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

Assertion (A): Controlling can prevent deviations

Reason (R): Controlling helps to minimize deviations by taking actions and decisions that reduce their recurrence.

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
 - b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
 - c. Assertion is correct statement but reason is wrong statement.
 - d. Assertion is wrong statement but reason is correct statement.

Assertion (A): Control is exercised at all levels of management.

Reason (R): Controlling is a pervasive Function.

MCQ Answers-

- 1. Answer: (a) Accounting centre
- 2. Answer: (d) All of the above
- 3. Answer: (d) Repair or Replace the machine
- 4. Answer: (d) Cash Flow Statement
- 5. Answer: (c) Obsolete Machinery
- 6. Answer: (c) Change in Quality Specifications for the material used
- 7. Answer: (d) All of the above
- 8. Answer: (b) Practical
- 9. Answer: (b) Taking corrective action
- 10. Answer: (a) To take corrective action
- 11. Answer: (b) Costly
- 12. Answer: (c) Controlling is expensive
- 13. Answer: (c) Results

14. Answer: (b) Management of the company

15. Answer: (c) Positive Deviation

Very Short Answer-

Ans1. Management By Exception.

Ans2. Systematic appraisal of the overall performance of the management of an organization.

Ans3. Controlling involves evaluation of past activities to find out deviations from standards so it is a backward looking function.

Ans 4. a) Gross Profit Ratio

b) Net Profit Ratio.

Ans5. Breakeven Point (BEP).

Ans 6. a) Provide training

b) Revive standards.

Ans7. Cost Centre, revenue center etc.

Ans8. Revenue Centre.

Ans 9. Net Profit

Total investment

Ans10. The areas which are critical to the success of an organization.

Short Answers-

Answer 1: Characteristics of Control: The Control function of management has the following features:

1. Controlling is a continuous Process: It involves continuous measurement and review of actual performance and results in corrective action based on this review. It may lead to changes in planning, staffing, organizing, etc.

2. Controlling is looking Back: Control leads to the appraisal of past activities. Thus, it is looking back. The shortcomings in the performance of various individuals and departments are revealed by the control process. This is known as feedback information. It will help in knowing the reasons for poor performance. Corrective action can be initiated on the basis of feedback information.

3. Control is forward-looking: Control is said to be forward-looking. It is related to the future as the past cannot be controlled. It is usually preventive as the preserve of the control system leads to minimizing wastages, losses, and deviations from standards. It should be noted that control does not curtail the rights of individuals. It simply keeps a check on the Performance of individuals.

4. Control is Action-Oriented: Control implies taking corrective measures, whenever required. Action is the essence of control. The purpose of control is achieved only when corrective action is taken on the basis of feedback information. If the control does not lead to any action, then a manager can't ensure actual performance as per standards. A good system of control facilitates timely action so that there is minimum wastage of resources, time, and energy.

5. Control is a Pervasive function: It is a basic function of every manager irrespective of his level of authority. It is a follow-up action to the other function of management. Every manager is responsible for controlling the activities of those working under him and taking necessary action whenever necessary.

Answer 2: Management by exception: Effective control can be achieved if critical or key points are identified and close attention is directed to adjustment at these points. This is known as 'control by exception'. According to this principle, only significant deviations from the standards require management's attention as they constitute exceptions. An attempt to go through all deviations tends to increase the workload of the Manager and decrease attention on important problems.

For instance, if postal expenses increase by twenty percent, the deviation is too insignificant to require managerial attention. On the other hand, if labor costs rise by twenty percent, they should receive immediate managerial attention.

The Principle of Management by exception implies that minor deviations from the standards may be ignored or given less attention. This would conserve managerial time, effort, and energy which could be utilized on important matters. But whenever deviations from standards are higher than the accepted level, management must take corrective measures to deal with the situation.

Answer 3: Responsibility Accounting is a system of control where responsibility is assigned for the control of costs. The persons are made responsible for the control of costs. Proper authority is given to the persons so that they are able to keep up their performance. In case the performance is not according to the predetermined standards then the persons who are assigned this duty will be personally responsible for it.

In responsibility accounting, the emphasis is on men rather than on systems e.g. if Mr. A, the manager of a department, prepares the cost budget of his department then he will be made responsible for keeping the budget under control. A will be supplied with full information of cost incurred by this department. In case the cost incurred is more than the budgeted costs, then A will try to find out reasons and take necessary corrective measures. A will be personally responsible for the performance of his department.

Answer 4: Zero Based Budgeting Whenever a budget is prepared, past records and experience are taken into consideration. The new budget is prepared on the basis of budgets of the previous period. This method is known as 'Based Budgeting'. On the contrary, the concept of zero-base budgeting considers the future not a mere projection of the past. As the environment is changing fast, the need to forecast systematically future events arise. For the growth and

survival of any business organization, these changes need to be adopted.

Zero-base budgeting is the latest technique and it is meant for a particular period of time. It doesn't prepare an altogether new budget. Normally, the previous year's performance is taken as a base for the current year's budget in budgeting techniques. But in zero-base budgeting, every year is taken as a new year, and the previous year is not taken as a base.

Zero is taken as a base and all budget proposals are considered in the light of present conditions. In zero-based budgeting, the amount to be spent on various activities will depend upon justification given by the manager.

Hence, zero-based budgeting provides flexibility and freedom in allocating the resources and the chances of repletion of weaknesses of the previous year are reduced.

Answer 5: Management information system: A management information system (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. A decision-maker requires up to date, accurate and timely information. MIS provides the required information to the managers by systematically Processing massive data generated in an organization. Thus, MIS is an important communication tool for managers.

MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

MIS offers the following advantages to Managers:

1. It facilitates the collection, management, and dissemination of information at different levels of Management and across different departments of the Organisation.
2. It supports planning, decision making, and controlling at all levels.
3. It improves the quality of information with which a manager works.
4. It ensures cost-effectiveness in managing information.
5. It reduces information overload on the managers as only relevant information is provided to them.

Answer 6: A comparison of Planning and Control:

Planning	Control
1. Planning emphasizes more on non-personal, abstract long-range problems.	1. Control emphasizes more and long-range problems.
2. Planning is based on estimates	2. Control is based on estimates.
3. Planning is done by top-level executives.	3. Control is done by top-level executives.
4. Under Planning, the evaluation of results is very difficult.	4. Under Control, the evaluation of results is very difficult.

5. Determination of results takes a very long time.	5. Determination of results takes a very long time.
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Answer 7: The main advantages of Management audit are as follows.

1. It helps to locate present and potential deficiencies in the performance of management functions.
2. It helps to Improve the Control system to an Organisation by continuously monitoring the performance of Management.
3. It Improves Coordination in the functioning of various departments so that they work together effectively towards the achievement of organizational objectives.
4. It ensures updating of existing managerial .policies and strategies in the light of environmental changes.

Conducting a management audit may sometimes pose a problem as there are no standard techniques of management audit. Also, management audit is not compulsory under any law. Enlightened managers, however, understand its usefulness in improving the overall performance of the organization.

Long Answers-

Answer 1: Essential features of a sound control system:

A good control system has the following essential features:

1. Clear out objectives: Before Planning a control system, it is essential to know clearly the objectives it will tend to achieve. The standards of performance should be based on these objectives. Thus, the control system should be directed towards the detection of early deviations from the standards to permit effective corrective action. If the standards are arbitrary or subjective in nature, they will not be able to measure deviations properly. Thus, the purpose of control will be lost.
2. Suitability: Control techniques should be appropriately designed to suit the nature of the activities being controlled. This means that different types of activities need different types of control techniques. The control technique should be tailored to reflect the performance of all types of operations, say, production or sales.

It is also essential that the overall control system should be appropriate for the organization. A control system that is good for a small organization may be inadequate for a big organization.

3. Simplicity: A good system of control should be simple and easy to understand. The employees must know what is expected of them and how their performance will be evaluated. If the employees don't understand the standards of performance properly, the actual performance might turn out to be very poor.
4. Economy: The system of control must be worth its costs. It must justify the expenses

involved. A control system is justifiable if the savings anticipated from it exceed the costs of its working. Small enterprises cannot afford elaborate control systems which are very costly. As far as possible, unnecessary paperwork and reports should be avoided.

5. Flexibility: A good control system must keep pace with the continuously changing environment. It must be responsive to changing conditions. It should be adaptable to new developments such as the introduction of new methods, materials, and changes in the requirements of the customers. If there is a change in any plan, the control system should be capable of absorbing such change.

6. Forward-looking: The system of control should be forward-looking in the sense that it should detect and report deviations promptly. Timeless is the essence of control. Ideally, deviations should be anticipated and preventive action should be taken. More realistically information on deviations should be monitored and feedback to the system immediately so that corrections are effected with minimum cost and inconvenience.

7. Suggesting Corrective Action: Merely pointing out deviations is not sufficient in a good control system. It must lead to taking corrective action to achieve the desired objectives. It may result in taking suitable action against the employees, giving them training, ensuring effective supervision, improving communication, revising standards, etc.

8. Concentration on exceptions: This is also known as 'Control significant deviations from standards require management's attention as they constitute exceptions. An attempt to go through all deviation tends to increase unnecessary efforts and to decrease attention on important problems.

9. Strategic Point Control: Small deviations in certain cases may have greater significance than larger ones in other cases, for example, deviation of ten percent in budgeted labor cost may be more troublesome to a manager than a deviation of twenty-five percent in budgeted postal charges. The Principle of strategic point control states that effective control can be achieved if critical, key, or strategic points can be identified and close attention directed to adjustment at those points. In fact, strategic point control is an extension of control by exception.

Answer 2: Relationship of control with other Function of Management: We know that control is the last function of management because its need arises only after performing the functioning of planning, organizing, and directing. But being the last function does not lower down its importance as compared to other functions. Control is very much linked to other functions of management. In fact, the success of all other functions depends upon effective control,

The relation of Control with other managerial functions is explained below:

1. Relationship of Control with Planning: There is a close relationship between the Control and Planning functions of Management. Planning is the basis of Control, The control process involves determining the standards, comparison of the deviations, and taking corrective action to remove such deviations. In this process, planning provides such standards against which the progress of the actual performance is compared.

Thus where there is no plan there can be no basis for control. HG Hick has rightly said that “Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning there is no predetermined understanding of the desired performance.

On the other hand, plans will also prove mere imaginations in the absence of control. Because in such a case there will be no one to check whether or not everything is being done according to plans. Also in the absence of control, there will be no corrective action to direct the actual progress towards the accomplishment of plans.

Thus planning is meaningless without control, and control is aimless without planning.

2. Relationship of control with the organization: Control can be meaningful only when the person responsible for deviations is identified and is held responsible. This is possible only because of the organization because it is only in an organization that the authority and responsibility of each one are defined. In the absence of organization, neither the person responsible for committing the mistakes will be identified nor any action can be taken against him. Hence, the same mistakes will be repeated time and again. As such, effective organization is essential for effective control.

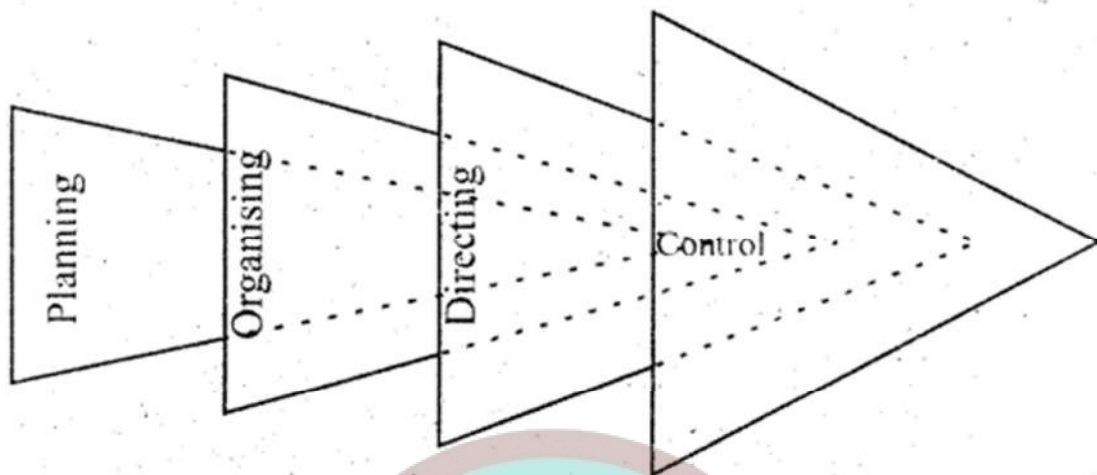
Similarly, Organisation is also dependent upon control because organizing is to assign work to individuals and give them authority and fix responsibility in case of mistakes. Since fixing of responsibility’ is possible only through Control, therefore effective control is essential for effective organization.

3. Relationship of control with Direction: Direction removes the difficulties in the way of various functions even before they are reviewed in order to control their progress. Direction makes the employee more capable and enthusiastic towards their work and provides them with adequate guidance training and supervision. Thus direction and control are interlinked with each other.

4. Relationship of control with other functions of Management: Control has deep relations with other functions of management as well. Communication helps in comparison of actual results with the standards by providing timely information of actual results with the standards by providing timely information of actual progress. Decision-making helps in determining the way to remove the deviations and the type of corrective actions to be undertaken.

Motivation helps in encouraging people to work towards the achievement of organizational objectives. Under control performance of each person is evaluated and efficient persons are motivated by providing them financial and non-financial incentives whereas inefficient employees are provided training to remove their deficiencies. Thus, it is clear that all the functions of management are inter-linked.

The relationship of various managerial functions is depicted through the following diagram:



From the above diagram, it is clear that the relationship between control and other managerial function is so deep that it is impossible to think of them separately. Every function affects the control and gets affected by it.

Case Study Answer-

1. Answer:

- a. The functions of management highlighted in the above paragraph are Controlling and Directing.
- b. The employees are motivated under Employee recognition programmes which is a non-financial incentive. Employee recognition programmes helps to fulfill the need of due consideration and appreciation of the people working in an organisation. It boosts their self-esteem and motivates them to work with greater zeal and enthusiasm.
- c. The two values that the manager wants to communicate to the society through his work and behaviour are:
 - Respect for employees
 - Concern for environment

2. Answer:

- a. The functions of management discussed above are Staffing and Controlling.
- b. The two steps involved in staffing function are as follows:
 - **Estimating manpower requirements:** The manpower requirements of an organisation are estimated through workload analysis and workforce analysis. The workload analysis helps to determine the number and type of human resource required in the organisation to meet its present and future needs. Whereas workforce analysis seeks to determine the number and type of human resource available within the organisation.
 - **Recruitment:** The process of recruitment involves searching for the prospective candidates and stimulating them to apply for jobs in the organisation. There are two sources of recruitment namely, internal and external.

The two steps involved in controlling function are as follows:

- Comparing actual performance with standards to identify deviations if any.
“It was found that the target of producing 300 bulbs a day was not met by the employees.”
- Analysing deviations through critical point control and management by exception approach to identify the causes for their occurrence. “On analysis, it was found that the workers were not at fault. Due to electricity failure and shortage of workers, the company was not able to achieve the set targets and alternative arrangements were needed.”
- Taking corrective action, if required “To meet the increased demand, the company assessed that approximately ... as subordinate under each head.”

c. The two values that the company wants to communicate to the society are:

- Women empowerment
- Kindness.

Assertion Reason Answer-

1. d. Assertion is wrong statement but reason is correct statement.
2. a. Assertion and reason both are correct statements and reason is correct explanation for assertion.



Swotters